OBJECTIONS TO A POSTAL SAVINGS-BANK.

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THE sentiment in favor of a Postal Savings system is prompted by a most commendable desire to furnish absolute security for the small depositor, who, by resolution and self-denial, has laid up something against old age or a rainy day. The interest of the State and community in such accumulations is perfectly apparent, and the importance of having in every locality convenient and absolutely safe depositaries for them is too evident to require lengthy argument. There is scarcely any experience through which a community can pass that is more distressing and disheartening than the failure of a bank which involves wiping out the painfully won savings upon which hundreds of men and women are relying for the needs of old age. There is scarcely another service which modern society can render to the masses that is more helpful and stimulating than this of encouraging and safeguarding small savings.

It does not, however, follow that, in the United States, the Federal Government is the agency best qualified to assume this task. The idea of a savings-bank in the Post-office Department comes to us from Europe, and it has not been closely scrutinized as to its adaptability to conditions here. It has three features which commend it—to wit: cheapness of administration, the convenience to the public of an office in each post-office and the security of the Government obligation. For European countries there is another consideration, viz: it furnishes a large market for Government loans. There are reasons why the Postal Savings-bank is not as suitable an institution for the United States as for Great Britain, or for the other countries where it has worked successfully. These reasons have their basis mainly in the territorial extent of this country and the differences that exist in

the wealth and industrial development of its various sections. The injury that would result to this country from having a considerable portion of its capital drained from the outlying districts to a centre, for investment in a limited line of securities, is deserving of very serious consideration. Great Britain is a small country compared with the United States, and every part of it, besides being reasonably well supplied with local capital, is not far distant from the financial metropolis; but the disadvantage of the withdrawal of savings deposits from local use is observed even there. The London "Bankers' Magazine" for February, 1899, discussing the comparative services in a community of a branch office of the postal bank and a branch office of one of the great commercial banks, says:

"The branches of the Post-Office Savings-Bank convey all the savings of the district which they receive straight up to the central office in London. This money is employed there in purchases of the public funds of the country; it is thus removed from the district in which it originates, and incidentally assists in raising the price of the funds to so high a point that the Postmaster-General is unable to invest the amount collected on such terms as to obtain back the interest which he covenants to allow his depositors, and to obtain also a sufficient margin to meet the working expenses.

"The deposits in the Post-Office Savings-Banks thus eventually cause an expense to the country. There was a deficiency in the Savings-Bank Funds last year which had to be made up out of the public taxation. The deposits in the branch of a bank in a small town or village are, on the other hand, a source of gain to the country; they are of great service in developing the trade of the place in which the bank exists, and in assisting the inhabitants in their business. The habit of keeping an account with a bank is now general even among very small traders, and in very remote districts. This habit could scarcely exist were it not for the existence of branch banking-offices. Any one engaged in buisness can scarcely keep his account at a place very distant from the locality in which his business is carried on. There are so many occasions on which any one carrying on a really active business has to refer to his banker, and when a personal interview is convenient if not essential, that proximity is most desirable. Other results, also affecting the economic development of the country, follow. The advantages of the use of 'credit,' that most powerful factor in the growth of trade and industry, are extended to dwellers in the most remote districts. With proper precautions and care in making advances, great advantages to the country districts result. Minor, but not unimportant, advantages follow; the use of specie and of notes is economized, while the trade of the country is increasingly carried on by means of checks. None of these advantages take place in the case of the opening of a new branch of the Post-Office

Savings-Bank. They are mentioned here as they sometimes escape the attention of our public men, even of those acquainted with other descriptions of business. They think merely of the savings-banks as showing the power of the country to put by and save, and they do not think of the other side of the picture."

The Postal Savings deposits, at all offices throughout the British system, are sent up to the central office in London and invested in British consols; and complaint is above made that the constant purchases for the Postal Bank had, in 1899, forced up the price of the consols and made the return on the investment so low that the Bank was running behind. Since then the British Government has been forced to issue many millions of new obligations, and the price of consols has fallen so that the situation of the Bank, as respects income on recent purchases, has improved. Nevertheless, the statement is instructive as showing the natural effect of gathering funds from all over a country for investment in a restricted class of securities.

Below is an extract from the London "Statist" of December 22, 1906, in which are described the ill effects upon the industries of Ireland resulting from the constant drain of Postal Savings deposits to London. If these deposits had been made in local savings-banks, and invested locally, they would have contributed to the development of Ireland's resources and the employment of the Irish people, instead of being tied up in consols. The "Statist" says:

"Ireland is a very poor country. Her resources are quite undeveloped. Practically, it is hardly an exaggeration to say that she has not yet entered upon an economic life. . . . Naturally, therefore, she requires abundant capital and abundant labor. . . . In June of the present year the Irish deposits in the Savings Banks were, in round numbers, 13 millions sterling, and this (for Ireland) very large sum is employed not in developing any Irish industry, but in bolstering up the credit of the United Kingdom. . . . Nobody will dispute that the Irishman of enterprise is seriously handicapped by the fact that so much Irish money is drawn away from Irish to Imperial purposes. Just as Ireland has been laying out large sums annually for sixty-five years in rearing young men and women to export them, without getting any return, to the United States and the Colonies, to create there vast wealth, so in finance Ireland is pinching and saving about 13 millions of money to export it to London for the purpose of bolstering up an amateurish system of finance, which has brought the national credit to the pitch at which we see it."

What would be the result of opening a savings-bank in connection with every post-office in the United States, and of re-

mitting all the deposits to Washington for investment in a limited list of securities? In the first place, what would be the effect upon the communities from which these moneys were withdrawn? The last report of the Comptroller of the Currency shows the amount of deposits in savings-banks at that time to have been over $3,000,000,000. Of course there is no probability that all of this money would be transferred to the Postal Savings-banks; but, on the other hand, there are many deposits in national and State banks, and with trust companies and other institutions, which might be attracted to the Government's strong-box. The extent of the displacement would, doubtless, depend somewhat upon the rate of interest paid, and there would be some danger of that being more or less involved in politics, reluctance to reduce the rate being shown in England where the system has an annual deficit. If we believe that the system would meet a general need, we must assume that it would draw a large sum in the aggregate. This money is now invested locally. It is an important part of the capital upon which each community is doing business. It is loaned largely upon real estate mortgages, partly upon personal security, it is partly invested in local bonds or real estate. It is being used in the locality where it is owned and contributing to the development of that locality, the support of its industries and the employment of its people. If this capital is removed to Washington for investment, what will be the effect upon the communities from which it is taken?

The authorities at Washington cannot redistribute this capital by investments to the same sections from which it came. The discretion allowed any board of managers in the investment of such funds would undoubtedly be quite restricted. Government bonds, State bonds and municipal bonds would probably constitute the list. Perhaps railway bonds would have to be included; but the making up of a list of eligible railway bonds would be a delicate task. In brief, the investments of the Postal Savings-bank would be in securities of a high class, which yield a low return, and which now find a market only in the wealthier sections of the country, among people who are not so much interested in the interest-rate as in the security of the principal. It is not likely that any savings-bank in a State like Iowa has today a dollar of investments that would be accepted by a Postal Savings-bank. There are bond issues in Iowa that the latter in-

stitution might accept, but they are of such a high class, the competition for them from outside the State is so keen and the returns from them so low that banks within the State can do better in investments of a more local character. Capital owned in Iowa is not at present invested in low interest-bearing securities. It is likely, therefore, that all the deposits diverted from Iowa banks to the Postal Savings-bank would be so much capital lost to that State while on deposit. It would be brought down to the already congested money markets of the East, to multiply the demand for the limited supply of choice securities that have a national and international market. The result must be an economic loss to the country; for capital is transferred from where it is most needed to where it is least needed. To the extent in which this transfer occurred—that is, to the extent in which the system became popular and effective—its influence would be to reduce the earnings of these savings, widen the difference in interest-rates between different sections of the country, retard the distribution of industries and population and check the development of the country.

The question is, Is it necessary to bring about these undesirable effects in order to accomplish the end sought, viz: the security of the small depositor? Let it be agreed that he should have complete protection. Can it not be provided without the forced removal of this capital from the locality to which it belongs, where perhaps it is affording employment to its owners, and where it can be utilized most advantageously to all concerned?

There are industries and lines of enterprise which can be advantageously centralized, but the investment of great sums of popular deposits cannot. These investments should follow natural channels, with only such restrictions as are necessary to obtain safety. There should be no enforced removal of funds that can be avoided. With capable managers who are familiar with the values of real estate in their own neighborhoods and with all local conditions, local institutions can invest these deposits safely, and much more serviceably to the whole country than any central board at Washington can do it. Granted that reform in banking laws and methods are needed, let financiers and social reformers direct their aims to securing a reform that is consistent with the most effective use of our capital, and that will

promote rather than retard the harmonious development of all sections of the country.

It will be a very weak and unscientific treatment of the problem in hand to consider only the sentimental phase and dispose of the whole matter by unloading it on the Federal Government, the one political organization of all least qualified to deal with it. This is one of our problems, and not the only one, which our people should deal with at home, instead of petitioning for relief from afar.

Several States have already shown how the subject may be dealt with successfully. New York, Massachusetts and Connecticut have mutual savings-banks, conducted wholly for the benefit of depositors, and so well safeguarded that no serious losses have occurred for many years. All of the earnings, after expenses are paid and a surplus fund has been accumulated, are distributed in dividends to the depositors. Most of these banks are now earning four per cent. for depositors. On July 1, 1906, there were 134 savings-banks in the State of New York, holding $1,335,093,053.62. The only losses that have been suffered by savings-bank depositors in that State in the twenty-eight years since January, 1879, have been due to the scaling of deposits in five banks, by order of the Courts, to make good losses that had been sustained in two cases by the dishonesty of employees, in two cases by the failure of national banks in which funds were on deposit and in one case by bad loans. The cases in which losses occurred were as follows:

1. Ulster County Savings-Institution. Defalcation discovered in 1891. Deposits were scaled 15 per cent. The bank is still in business and prosperous; on July 1, 1906, it held deposits aggregating $3,284,554.92, had a surplus of $138,672.39, and it paid dividends to depositors in 1906 at the rate of 3½ per cent.

2. National Savings-Bank, Buffalo. Defalcation in 1892. Deposits were scaled 22 per cent. and bank reorganized as Empire State Savings Bank. Went out of business in 1902, and the Superintendent of Banks reports that there may be a further loss of two or three per cent.

3. Southern Tier Savings-Bank, a small institution (afterwards Elmira Savings-Bank). Suffered a loss in 1893 by the closing of a national bank in which it had a deposit of $42,704.67. Deposits were scaled 20 per cent. The business after that date was kept separate from the old, and the bank is now prosperous, paying dividends in 1906 at the rate of 3½ per cent. Some further distribution will be made on the old loss.

4. Chenango Valley Savings-Bank. Found to be insolvent in 1895,

Deposits were scaled about 15 per cent. The bank continues in business and paid dividends in 1906 of 3 per cent.

5. Carthage Savings-Bank. Dragged down in 1898 by failure of a national bank with which it had a deposit. Has paid 95 per cent. of its deposits.

It will be seen that the Carthage case, in which there was a loss of five per cent., is the only one which occurred within the last ten years. The entire showing for the system under the present law is an encouraging one.

The Massachusetts and Connecticut systems are similar to that of New York. The savings-banks in these three States, to use the language of Mr. Jay, of Massachusetts, describing those of his own State, "have no paid-up capital; they are not banks at all, but mutual investment associations, the depositors paying their deposits to the trustees, who invest the money and declare in dividends to the depositors substantially all that they are able to earn on the money. The balance goes to form a surplus or guaranty fund."

No system can be pronounced perfect so long as losses occur; but, when the advantages of higher returns to depositors and employment of the moneys at home are considered, there is no reason why the people of either of these States should want to exchange their system for a Postal Savings-bank. They will do better by holding to what they have and remedying existing defects. Not only will it be better for depositors and the communities financially, but it is not to be forgotten that self-help is always to be preferred to outside aid or control. What a State or local community can do for itself it should not want the United States Government to meddle with. Those functions of organized society which may be performed by local associations are part of the social life of the people, and they ought to participate in them. The experience thus acquired has an educational value, helping to qualify the body of the people for other and larger undertakings of a coöperative character.

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